AOD-202

AGRICULTURAL OUTLOOK DIGEST

Approved by the Outlook and Situation Board, August 28, 1974

WEATHER PUTS THE LID ON EXPANSION

Unfavorable weather has thwarted U.S. farmers' ambitious expansion plans for 1974. Based on August 1 conditions, total crop production may fall 6% from the 1973 record level.

Livestock output is forecast 4% higher this year, thanks to heavy marketings in the first half and some forced movement of cattle because of parched ranges this summer. Now livestock producers face prospects of higher cost feed brought on by weather-reduced crops.

Beyond the buffeting that farmers and the commodity markets are undergoing, this untimely drop in our potential farm output has serious implications for the U.S. economy and world food picture.

Hopeful Start

When the crop year began, record 1973 commodity prices, strong export demand, and freedom to plant under the new Agriculture Act gave farmers high hopes for expansion. Crop producers embarked on an all-out planting program.

Marketings of cattle, hogs, and poultry increased simultaneously in the first half of 1974. Livestock producers had a large inventory of mature animals held over from 1973. Poultrymen, especially those who raised turkeys, were responding to record 1973 prices.

Unfortunately, these expansionary crop and livestock trends ran headlong into trouble. Crop producers were in the weather's disfavor, while livestock men had to withstand not only drought but also inflation in costs and sliding prices.

Poor Weather

The weather has been wrong in many parts of the country. A wet spring dragged out the planting season for weeks beyond the norm, and even played havoc with spring wheat planting in mid-June. Summer brought torrid heat and dry weather, shriveling crops in the Midwest and West and likely forcing an unusual amount of cropland abandonment.

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SUPPLIES WILL BE EXTRA-TIGHT

Instead of enlarged crop supplies, it now appears virtually certain that except for rice, supplies of major grains and soybeans in 1974/75 will be down from last season, forcing major belt-tightening efforts for both domestic and foreign users, and leaving stocks of feed grains and soybeans at the end of the marketing year even more diminished than at the start. The United States, once a major holder of world grain reserves, would thus be down to barely pipeline stocks awaiting harvest of 1975 crops.

With only a 5-billion bushel corn crop, and a one-third drop in sorghum production forecast, the 1974/75 *feed grain* situation is critical.

Projected feed grain supplies 18 percent smaller than in the current season presage sharp fall-offs in both domestic feed use and exports, plus a drawdown in stocks. Domestic use of corn for food may be boosted a little by expanding use of corn-based sweeteners in the soft-drink industry.

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IMPACTS TO RIPPLE THROUGH DOMESTIC AND FOREIGN ECONOMIES

The impact of smaller crop production will be higher prices. U.S. consumers will have to foot part of the bill in their food prices, as will foreign customers who depend on our farm products. A further impact on foreign buyers will be the fact that we won't have enough of several commodities to keep up the recent export pace of the past year. On the other hand, some good crop prospects overseas may mean foreign buyers won't be as anxious to buy from us.

How much would our current forecasts of 1974 farm production affect domestic food prices and inflation, or cut into world food supplies? Precise answers are impossible to provide this soon. But we have formulated some "likely" answers—with the understanding that both farm supplies and demand for them from U.S. and foreign consumers could turn out quite differently than we now construe. Here are our "likely" forecasts based on crop conditions and economic trends in August:

The recent worsening of crop prospects is causing farm commodity prices to strengthen considerably at a time when a levelling off had been envisioned. Although livestock prices may be held in check during the second half of this year by plentiful beef supplies, they may follow the lead of crop prices and strengthen next year as reduced output levels become evident.

These price hikes will add their shove to inflation in the general economy during the second half. Even so, our forecasters expect both a little relief from inflation and a little better

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ANOTHER DILEMMA FOR LIVESTOCK

Troubled times for livestock producers, which already chronicle an 18-month odyssey of high-priced feed, bad weather, and economic obstacles, appear to be far from over.

Financial losses, roller-coaster fed cattle prices, and persistently high feed prices have pressured cattle feeders to cut back on their operations. The number of cattle on feed in 23 important States was 21 percent below a year earlier on July 1, and at the lowest level since October 1, 1968.

A 7-State survey on August 1 found a continued decline in the number on feed, although placements on feed during July were up from the abnormally low level of a year before. Marketings exceeded placements and inventories were down. Meanwhile, Federally-inspected cattle slaughter was 15 percent larger than the level of last July.

Over nine-tenths of a record-large U.S. cattle inventory—numbering 138 million—were outside feedlots July 1. Out there, cow-calf operators and backgrounders have been facing tough decisions this summer.

Cattlemen who can't find pasture or adequate feed are being forced to sell. With the cutback in cattle feeding, however, fewer feeders are being purchased. Feeder prices are low. Last year feeder cattle sold at a premium over fed cattle; for the rest of 1974, they are likely to run in the \$25-\$35 range, well below Choice steer prices.

Many cattlemen have been forced to sell animals for slaughter. In contrast, after several years of decline, calf slaughter is now increasing. And slaughter of non-fed steers and heifers in the first half of 1974 totaled around 1¼ million head, substantially larger than all of last year.

Feed costs will be high during the rest of the year, and feed supplies could still be relatively scarce by the summer of 1975, making the feedlot operator's future uncertain. However, he will have access to plentiful supplies of replacement stock.

The fortunes of cow-calf operators will depend in part on how weather treats pasture. Farmers with cash grain or livestock alternatives may be encouraged to sell grain and cut back on livestock production.

Even heavy slaughter of cows and other grass-fed cattle and calves this year won't end the buildup in the U.S. cattle inventory. The U.S. calf crop in 1974, a record 51 million head, along with the general expansion in recent years, means another record inventory in 1975.

Even with normal 1975 weather, cattle slaughter might be up 10-12 percent over this year. But with continuing adverse weather, even more beef could flow to market.

More Stew, Less Steak

For the rest of 1974 and early next year as well, consumers will find continued shrinkage in the volume of Choice beef and a swelling in the amount of lower grade beef cuts and hamburger offered. The gap between fed and non-fed cattle prices has widened already this year and may widen further. Some of this difference may show up in retail prices in the months ahead.

For poultry and dairy producers, the effects of adverse weather are somewhat more immediate. Although poultry producers started the year expanding, they began cutting back around midyear. And in light of feed prospects, sharp reductions in turkey, broiler, and egg output are likely well into next year. What's more, the surge of low-priced cattle being marketed is likely to have some downward impact on poultry prices.

Pinch for Pork

With summer hog slaughter above a year earlier, and with fall slaughter increasing seasonally, look for barrow and gilt prices averaging in the mid-\$30's this summer and a little lower this fall.

Hog producers will soon finish farrowing operations which will provide the bulk of first-half 1975 pork supplies. With normal feeding of these pigs, first-half pork supplies could be about 5 percent off the level of this year. But costly feed could lead to lower market weights and trimmer pork, reducing supplies even more. First-half hog prices could be back above mid-\$30's, but large beef supplies could limit advances.

Right now hog producers are making the breeding decisions that will largely determine the size of next year's second-half pork supplies. If feed prices break soon they may stick with earlier plans of a small reduction. But if prices stay high, producers will likely reduce farrowings rather sharply, leading to much less pork in late 1975.

LESS COTTON BUT LESS DEMAND

In the outlook spotlight for 1974/75 is a sharply smaller U.S. cotton supply, coupled with much weaker demand.

Reduced beginning stocks, combined with prospects for a slightly smaller 1974 crop, point to a supply of about 16.4 million bales, compared with last season's 17.2 million.

Cotton stocks may be tight this fall. Around 0.8 million bales of the estimated 3½ million carried over on August 1 are already sold for export. The remainder will have to last domestic mills until the 1974 crop becomes available in volume. However, the volume of early 1974 crop ginnings is running ahead of recent years.

Cotton use, like cotton supplies, will drop in 1974/75. Domestic use could slip to 7-7½ million bales.

Domestic mill use of cotton fell to an extremely low level in the fall of 1973, due to larger supplies of cheaper manmade fibers. However, in late 1973, as inventories dropped during the oil embargo, textile mills turned to cotton to satisfy their needs—but this was shortlived. By late 1973/74, domestic cotton use again declined, reflecting weakened textile demand and the lifting of the oil embargo.

U.S. cotton exports of only 5 million bales, including 1 million carried over from last year's contracts, are forecast for 1974/75.

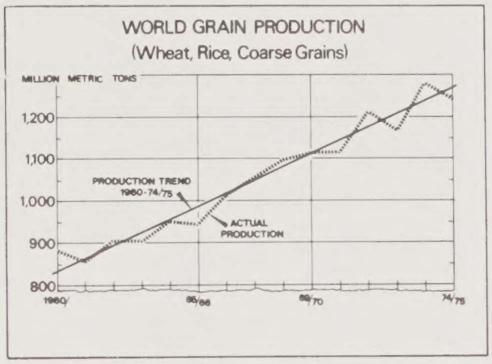
Lower 1974/75 export demand level reflects worldwide economic decline, larger beginning stocks and competitive supplies of cotton abroad, and a strong gain in manmade fibers output, despite higher prices, in the past year. By August 1, 1975, cotton stocks could total slightly to moderately above the summer's level.

WORLD GRAIN OUTPUT AFFECTED

Last month this publication outlined a tight world food situation during 1974/75 which included a slight increase in world wheat and feed grain output from last season's record. But because of deteriorating crop conditions in the United States and elsewhere it now appears that world wheat and feed grain production may total lower than last year, and drop a little below long-term growth trends as well.

Although the United States and Argentina are growing more wheat this year, Canada and Australia are growing less. Since these major exporters have low wheat stocks, world wheat trade in the year ahead will be somewhat reduced from the 1973/74 level. This spells hardship in some cases considering the continuing population growth in less developed nations generally and a smaller wheat crop in South Asia in particular (mainly India).

Earlier hopes that world wheat stocks could post some recovery in the next year have vanished. A little stock rebuilding is possible, unless the tight feed grain situation prompts even larger use of wheat for feed than has been expected.



World feed grain supplies will be tight indeed. World feed grain production is dropping more sharply than for wheat, mainly because of smaller crops in the United States, South Africa, and Eastern Europe. Our own smaller crop will reduce U.S. export capabilities sharply from the 1973/74 level of nearly 44 million short tons.

World feed grain stock levels dropped in the past year but are likely to show another small reduction in 1974/75.

The world rice crop will depend largely upon the performance of the summer monsoon in Asia. Indications now are that the 1974/75 crop will be several million tons below last year's record production.

AFTER LEAPFROGGING...

With one big jump, per capita disposable personal income of farm people last year overtook the income of all other Americans. The farm population in 1973 made 13 percent more per capita on average from all sources than other Americans. This is a dramatic change from 1972 and earlier years when farm people made much less than others.

Median money income for the farmer, however, another measure of how much farm people earn, still has not caught up with the median of other U.S. families. Farm families' median money income—$9,032—was $1,480 lower than for all U.S. families. Some farm people still close part of gap with home-raised food.

The 1973 crop year broke records for harvests and prices and caused the farmers' income bonanza. Realized gross farm income jumped about $27.0 billion from 1972 to a record high $97.0 billion. Realized net farm income increased to $32.2 billion from $17.5 billion in 1972.

The 1973 record for gross income reflects the 45-percent increase in cash receipts from farm marketings. Direct Government payments were down sharply from $4.0 billion in 1972 to $2.6 billion in 1973.

The 1973 boom year for farmers must be seen in perspective. In previous years, the total family income picture of farm families did not keep up with the incomes of their city "cousins," which came largely from factory, office, or service jobs.

In recent times, many farm families have combined farming with other kinds of jobs. Between 1960 and 1969, nonfarm income of farm people nearly doubled that of the previous decade and far outstripped the gain in farm income. In 1970, 93 percent of those reporting farm income also reported income from off-farm sources.

Even with these outside earnings, farm families are often not as well off as other U.S. families. For example, although 1973 was a year of exceptionally high farm income, 27 percent of farm families reported money incomes of less than $5,000, while only 23 percent of all U.S. families reported such low incomes. About 52 percent of all U.S. families, but only 46 percent of farm families, reported incomes of $10,000 or more.

Since 1973 was a boom year, people living on farms may expect to see some backsliding in 1974—both in terms of median income and per capita disposable income. Farmers can, however, expect the gap in income levels between themselves and the nonfarm population to remain fairly narrow compared with most years prior to 1973.

...FARM INCOME TO FALL

Farmers' incomes are swinging as widely as other economic barometers these days. After ascending from $17.5 billion in 1972 to $32.2 billion in 1973, realized net farm income may drop some $5½ billion in 1974.

Farmers are grossing a lot more from crops. Crop prices averaging a third higher than last year will overcome a small drop in the volume marketed. Crop receipts may rise $9 billion.

Sales of livestock and livestock products will yield around $2 billion less, however. Here it's a case of more sold, but lower prices than in 1973. Even with some sizable disaster payments, the $700-800 million farmers may receive in direct Government payments is almost $2 billion less than in 1973.

All farming income sources will add about $6 billion to gross farm incomes. But with farm costs rising about $12 billion, reflecting in good measure higher fuel, fertilizer, and now higher feed prices, net farm incomes will go down.

In the first half of next year, farmers may about hold their own. They will make more, because of their higher crop prices, but pay more out to accommodate continued inflation in costs.

WEATHER, from p. 1.

By August 1, crop reporters examining fields for USDA confirmed a discouraging scene. Corn stands—particularly in the Western Corn Belt—were in poor to only good shape; some fields were being cut for silage. Soybeans were developing much behind normal. Prospective yields were well below any recent year. Down in Texas, sorghum acreage was off sharply and yields were down. Cotton abandonment was heavy and yields were down on the droughty Texas High Plains. The dry weather sped the U.S. winter wheat harvest but lowered yields. Growing spring wheat was also hurting from lack of moisture. Compared with August 1973, when pasture and range were in top condition, grass from Ohio all the way across to Nevada was dried out.

Although the weather has done much damage, some of it still could be undone. Early August brought precipitation where it was most needed. In a special mid-month assessment, USDA suggested that the rain would only firm up yields forecast for corn but might repair soybean prospects a little. On the other hand, delays in spring planting mean that harvest will come late for some, making some crops more vulnerable to the first frost.

SUPPLIES, from p. I.

Although the total *wheat* crop is an estimated 8% larger this year, a minimal carryin is reducing total supplies for 1974/75. Total wheat use in the season ahead may not quite equal the 1974 crop, and stock levels may rise a little. With larger foreign wheat production, and with another large Russian grain crop, export demand is slackening.

The *rice* crop is forecast at a record 107 million hundredweight, which would allow for expansion of both domestic use and exports plus a generous rebuilding of rice stocks.

Soybean output will suffer from both smaller acreage and poor yields this year, and total supplies may drop about 9 percent from last season. Expansion trends in domestic soybean crushing and in soybean exports will likely be broken in 1974/75, and soybean stocks next year will again be down to extremely thin levels. Domestic soybean oil supplies will tighten and meal supplies will be about the same.

Prospective 1974/75 crop supplies and demand based on August 1 conditions

	Wheat	Rice	Feed Grains	Corn	Soybeans
	Mil. bu.	*Mil. cwt.*	*Mil. tons*	*Mil. bu.*	*Mil. bu.*
Supply:					
Old crop stocks . . .	249	7.1	20.6	428	160
Output & Imports . . .	1,841	107.0	175	4,967	1,314
Total	2,090	114.1	195.6	5,395	1,474
Utilization:					
Domestic	758-808	39.2-38.5	152.3-156.9	4,155-4,285	805-775
Exports	1000-900	64.3-58.1	29.7-23.8	900- 750	535-515
Total	1,758-1,708	103.5-96.6	182.0-180.7	5,055-5,035	1,424-1,374
Carryover	332-382	10.6-17.5	13.6-14.9	340-360	50-100

IMPACTS, from p. I.

performance of the overall economy over the next 6 months.

The rate of inflation may continue close to the level of first-half 1974, running at around a 9-9½ percent annual rate for the rest of 1974, before easing slightly in the first half of 1975.

Economic performance has been on the skids. As measured by the Gross National Product, it dropped 7% in real terms in the first quarter and an additional 0.8 percent in the second. We now look for little or no real economic growth the rest of this year or early next.

Consumers will continue to slip in terms of "real" incomes, after-tax dollars minus the impact of inflation. And unemployment will continue rising toward 6 percent over the next 6 months.

Until recently, it appeared that retail food prices would be reasonably level during the second half, perhaps declining in fall, and would average 12 percent higher than 1973's record level. However, unless there is a dramatic improvement in crop prospects, look for retail food prices rising about 3 percent during the third quarter and more slowly during the fourth, boosting the full-year average. If crop prospects deteriorate further, the rise could be even steeper.

In contrast to last year, food prices are being more strenuously affected by crop prices than by livestock prices. Retail prices for vegetable oils and margarine, cereal, bakery items, beverages, and sugar products are expected to continue higher through the rest of 1974. Lower dry bean prices may hold the processed fruit and vegetable category near its present level despite rises in canned and frozen fruits and vegetables. Fresh fruit and vegetable prices are up this summer but possibly will go down in fall.

During summer, dairy product prices are easing lower while those for red meat, poultry, and eggs are rising. Come fall, a seasonal decline is likely for red meats, offsetting increases for other livestock foods.

Despite the impact of higher farm prices on food prices in the months ahead, a look at 1974 as a whole shows that only about one-fourth of the food price rise is coming from the farm. The other three-fourths is occurring in the food industry—middlemen who transform raw farm products into retail groceries at the store.

The price spread between farmer and retail shelf is widening an estimated 21 percent in 1974, a record for one year. However, most of that spread is already in place. During the second half, price rises for such food industry costs as fuel, transportation, and packaging are expected to moderate.